GIC insights

2017 | Asia's evolving role in an uncertain world


## *GIC Insights 2017: Asia's Evolving Role In An Uncertain World*

GIC Insights is GIC's annual thought leadership event. Held this year on 15 September 2017, the event saw 110 prominent global business leaders deliberating long-term issues pertinent to the international business and investment community. The theme was Asia's Evolving Role in an Uncertain World, and topics explored included Asia's Challenges and Prospects over the Next Decade, Artificial Intelligence for Traditional Industries and A Long-Term Future in an Uncertain Environment.

Selected highlights from the Forum are set out in the following pages.

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# Asia's Challenges & Prospects for the Next Decade

| Key Takeaways |
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| • Long-term drivers of growth in Asia remain favourable.<br>• China will likely transit from an investment-led to a consumption-led economy, which is necessary for sustainable growth. |

| Summary |
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| • Inflation might have been muted by technology and robotics adding to the labour supply, as well as over-capacity in China.<br>• China is undertaking reform of the state-owned enterprise sector, but it needs to accelerate, having slowed in the last five years. It should also shift to market-oriented governance while unemployment remains low.<br>• China is experiencing a shift in attitudes toward entrepreneurship, driven by returnees to China and state support via subsidies.<br>• Urbanisation and growth of the middle class will be driven by China, India, Indonesia, Vietnam, Cambodia, and Myanmar.<br>• Developed economies (Singapore, Taiwan and South Korea) will remain important, as cities will continue to drive innovation. The region will also integrate more rapidly – evidenced by increasing financial integration and intra-regional tourism. |

| Investment Implications |
|---|
| • Conditions remain favourable for further asset price and currency appreciation in Asia.<br>• Tightening of monetary policy has not been sufficiently priced in by the markets, while abundant liquidity has been.<br>• Over-tightening of monetary policy and rise in real rates are risks to monitor.<br>• Chinese economic growth will likely fall in the transition from an investment-led to a consumption-led economy.<br>• Investors should avoid industries with over-capacity in China. |

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# Artificial Intelligence for Traditional Industries

| Key Takeaways |
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| • AI is already significantly changing a wide range of industries including industrials, agriculture, finance and more. There are many myths surrounding AI; companies need to realise that it does not require large amounts of money, but a significantly new mindset and approach. Adopting AI capabilities is a critical competitive advantage. |


| Summary |
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| • By mimicking elements of human intelligence, AI can deliver insights beyond human experts and transform organisations by optimising execution and learning in real-time.<br>• Small, AI-focused companies can solve problems at a lower cost and outperform traditional competitors. Zymergen has produced a fully functional replacement for mosquito repellent Deet using an automated lab at a fraction of the cost that established companies such as Dow and Du Pont spend to develop new chemicals.<br>• Even disruptive companies can themselves be disrupted by companies that can better harness AI. Embark has created an autonomous trucking system ahead of Tesla and Google at a very low cost.<br>• Transfer learning and representation learning, when applied to business problems, can replicate the role of management consultancies.<br>• AI will increasingly become a job threat to white-collar analysts, but companies have a role in training and monitoring the systems.<br>• AI talent is not concentrated solely in Silicon Valley – it can be found in hubs such as Montreal, Singapore, and Beijing that link talent with companies and technologies. |


| Investment Implications |
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| • Companies cannot treat AI as a "wrapper" around current systems; instead of transforming entire businesses, companies should start small and scale from there.<br>• Governments and large companies adopting AI must relinquish their command-and-control roles and shift to teaching AI systems, improving and iterating on the algorithms to ensure the whole system creates value. |

- Traditional companies need to look past older corporate partners and access Silicon Valley founders and talents that may not necessarily move in the same circles.

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## A Long-Term Future in an Uncertain World

### Key Takeaways

- Incentives and mandate design are key to aligning the behaviours of asset managers to the long-term horizon of asset owners.

### Summary


- Long-term investment is important because it serves the interests of the ultimate owners of the capital – individual savers.
- There is a gap between knowing what the right thing to do is, and actually doing it – for example, companies are not investing sufficiently in R&D despite knowing that it increases their long term value.
- Long-term investment has a number of advantages; it allows people to capture long-term trends, harvest the illiquidity premium, and compound returns for the long-term.
- Some long-term trends include the digitalisation of the economy, demographics (ageing, different preferences between generations), and climate change.
- Some ways of facilitating long-term investment include distinguishing between process and outcomes, designing incentives and mandates to focus on the long term, and engaging clients and stakeholders actively.
- Risks for long-term investors include not achieving the mandated return, an investment environment that offers low expected returns, and poor execution.


### Investment Implications

- Investors should remain exposed to the market to achieve long-term return objectives, but can guard against risks by diversifying their asset portfolios.
- An argument can also be made that long-term investments offer flexibility in adjusting market exposure.
- It is necessary for companies to embrace technology as a whole organisation, understand the implications of technological disruption on incumbents, and seek out opportunities in the new regime.